

## THE STUDY FOR BRICOLAGE BEHAVIOR LEADING TO CORPORATE DIVERSIFICATION MOTIVE

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### ABSTRACT

*This study examined corporate diversification strategies adopted under resource-constrained conditions in addition to those spurred by market influence, operational risk, and resource allocation failure.*

*Three different motivations were considered for corporate diversification from the perspective of resource bricolage. First, firms faced with economic crises combine available resources, such as idle resources and family member expertise, to establish ground breaking and innovative businesses that enable entering new markets and expanding into new industries. This facilitates the survival of the firms. Second, firms aim to fulfill corporate social responsibility by applying wastes, which otherwise require additional processing fees, to create new products. This enables not only decreasing the cost of waste processing but also expanding the existing businesses. Although not all new businesses developed using this method can produce substantial results, they can be addressed in corporate social responsibility annual reports, thus influencing the crucial clients of the existent businesses. Finally, the utilization of resource slack promotes corporate diversification.*

**KEYWORDS:** Bricolage, Diversification Motive, Economic Crisis, Social Responsibility, Organizational Slack

**Received:** Jun 27, 2016; **Accepted:** Jul 12, 2016; **Published:** Jul 28, 2016; **Paper Id.:** IJBMRAUG20162

### INTRODUCTION

The literature on business strategy broadly views corporate diversification as a method for achieving competitive advantages, growth, and survival (Montgomery, 1994; Penrose, 1959; Rumelt, 1974). Corporations choose to engage in diversification to achieve growth and economies of scope, improve market power and stabilize profits (Oster, 1994). Ansoff (1957) was the first to conceptualize corporate diversification strategy and asserted that diversification can only be considered as the entry of a firm into a new market by selling new products. Gort (1962) expanded on this concept, and Ramanujam and Varadarajan (1989) asserted that diversification is inevitably related to changes in administrative structures, systems, and other management processes. When discussing the reasons for corporate diversification, Erdorf (2013) reviewed past studies and indicated that explanations for the primary motives for corporate diversification are divided into those drawn from resource-based theories (Penrose, 1959; Teece, 1982; Chatterjee and Wernerfelt, 1988; Matsusaka, 2001), the market pull concept in market-power theory and the risk diversification perspective of portfolio theory. However, Simon (1986) has indicated that individuals are only able to reach a “good enough solution” because of

environmental uncertainty, imperfect information, and differences in social values. Thus, no universally applicable principle is available for examining management from the decision-making perspective of contingent theory. Does this indicate that the bounded rationality phenomenon exists in the strategic motivations driving corporate diversification? Some resources are easily overlooked in the process of business operations, but the effective use of these resources in new applications can lead to effective problem solving during critical moments or opportunities to develop new businesses. As such, resource bricolage can bring new opportunities for diversification. Therefore, this study presents six cases in the Taiwanese textile industry to explain motives for diversification through resource bricolage under conditions of resource scarcity.

### **Seeking Survival during an Economic Crisis**

The early development of the Taiwanese textile industry was driven by relatively low wages and diligent labor. The government gradually began to promote this industry in the 1950s, which spurred the rapid development of the Taiwanese towel industry and the formation of towel industry clusters. Shing Long Textile was established in 1979 and primarily produced towel fabrics. In 1992, at the peak of the towel industry, the company expanded its factories to transition to finished towel production. However, gradually increasing production costs in labor and land and trends of trade liberalization drove the relocation of large towel producers, thus causing an existential crisis for the company, which began to lose orders for its contract operations in 2002. In the face of the considerable loss of contract orders and other economic pressures, the firm combined idle factories, production capacity and labor along with new family member skills to shift its business model to producing stylized “cake towels” for the gift market. Although the company did not completely cease operations for its existing contract business, it was forced to shift this business to the manufacture and sale of products under its own brand.

This shift provided an opportunity to combine idle resources with the interests of family members in a successful entrance into the gift market. This case demonstrates an instance in which a company faced with operational challenges seized an opportunity to recombine existing resources and engage in corporate diversification, enabling the firm to survive an existential crisis. As mentioned by Erdorf (2013), when existing business investments are no longer profitable for a company and its core business provides insufficient profits after a certain length of time, diversification is a logical strategy for firms to pursue.

### **Fulfilling Social Responsibility through Cradle to Cradle Design**

Textile production processes inevitably create waste products as a result of energy consumption or manufacturing process wear. These waste products not only affect the environment, but also incur additional costs for cleaning and processing. As such, this study focused on three firms that adopted the concepts of recycling and reusing to resolve the problem of waste products production during their manufacturing processes—in other words, turning trash into gold. Among these, Ever Textile, an integrated upstream-midstream-downstream textile firm, used a new formula to combine sludge and cinder waste generated by its dyeing and finishing plants to produce light weight and high-quality eco bricks. This process not only eliminated the costs of outsourcing sludge and cinder waste processing, but also produced an additional source of income.

Further more, the firm gathered waste yarn into bundles for sale to rope factories as raw materials, earning the company an annual revenue exceeding NT\$ 10 million. Further more, the second-largest nylon 6 chip manufacturer

worldwide, Li Peng Enterprises, adopted proprietary Ecoflying polyester recycling technology to promote environmentalism, and collected nylon and polyester clothes at its retail outlets for recycling and reprocessing into wooden plastic products as a type of green building material. The company used the finished products to decorate some of its retail outlets, reducing decoration costs and shaping a brand image of “revering heaven, loving people, protecting the Earth.” Furthermore, the company diversified its business from contract manufacturing to providing composite urban outdoor leisure goods.

The championing of environmental and social responsibility is not limited to large corporations. In the case of Super Textile, a firm producing fabrics for functional clothing, AV speakers, and vehicle seating with a total market capitalization of NT\$ 60 million and only 70 employees, the implementation of corporate social responsibility practices began in 1997, when the chairman, Luo Zhong-you, frequently commuted between the Taipei company headquarters and its Taoyuan-based factories. While driving on the highway, Luo observed the destruction inflicted on the natural environment by mountains of garbage piled up on the side of the road. He began contemplating methods of recycling PET bottles into fabrics as a method of reducing garbage by converting it into a resource. In 2006, Super Textile began cooperating with the Tzu Chi Foundation, an international humanitarian NGO, to develop yarn composed of fibers produced from recycled PET bottles and pallets produced from bottle caps through the recovery expertise of Tzu Chi volunteers. This way, the firm realized the ideal of “changing waste PET bottles into oil floating on the ground.” Overall, the three case firms share the characteristic of putting “cradle to cradle” environmental concepts into practice, thus creating truly sustainable products and services by reusing technical nutrients in industrial processes (Sherratt A, 2013). Furthermore, these firms conducted product or business diversification in accordance with the concept of corporate social responsibility from the perspective of stakeholder clients. Although these products or businesses may not become the core sources of business revenue, their ability to produce a profit without incurring losses resolves shareholder concerns about their impact on overall earnings, thus facilitating their sustained promotion. In short, this type of product development represents the creation of economies of scope through corporate social responsibility investments facilitated by the diversification (Kang, 2013).

Another relevant case, Singtex, involves the creative development of new product lines that are based on everyday observations. These product lines have become the core business focus of the case firm after the implementation of its corporate diversification scheme. Selling breathable waterproof fabrics as its primary product, Singtex began developing coffee-based fabrics after its chairman, Mr. Chen, accompanied his wife to a concert in 2005. At the event, Mr. Chen’s wife observed a customer asking a waiter for coffee grounds for home deodorizing. The idea occurred to him that, because coffee grounds had deodorizing effects, perhaps the addition of coffee grounds to fabrics would confer a similar deodorizing function. In late 2008, the Singtex exhibited its “S. Café Ecotechnology Coffee Fabric” in Germany and immediately attracted the attention of major international brands. Subsequently, the coffee fabric was combined with materials made of recycled PET bottles to manufacture multifunctional (moisture-absorbing, wicking, deodorizing, anti-UV) and environmentally friendly t-shirts. This combination of green innovation and future trends optimized the benefits of reducing, reusing, and recycling. Furthermore, the development of this product facilitated the transformation of Singtex from a contract-based model to one focused on brand marketing.

### **The Application of Organizational Slack**

Firms that emphasize efficiency should avoid organizational slack. However, slack resources can exert key rescue

effects when businesses are faced with difficulties (Tan and Peng, 2003). Slack resources are defined as resources exceeding the minimum amount required for business operations (Nohria and Gulati, 1996). From the perspective of resource-based theory, the motive for diversification is to fully utilize slack resources and strike a balance between the use of current resources and the development of new resources (Zhihong and Xinyi; 2015). When an artificial textile producer was faced with reduced orders during the 2009 financial crisis, it combined the excess polyester production capacity resulting from reduced business orders with underdeveloped slack human resources, including logistics personnel and retired employees, to engage in intrapreneurship. These efforts resulted in the establishment of a new company, iEcofun, that developed products such as ecological aquariums, creative planter pots, and green walls through the concept of aquaponics, thus encompassing the cultural, environmental, and refined agriculture industries. The company is now shifting its focus toward plant factories. The bricolage of slack resources to conduct business diversification in this case is an example of irrational manager motivations. However, such motivations do not pertain to self-interest or the tunneling motivation of major shareholders as described in agency theory (Zhihong and Xinyi; 2015), but rather the intentions of managers concerned with the wellbeing of their staff.

## DISCUSSIONS

The bricolage perspective adopted by this study indicates that corporate diversification stems from multiple motives (Table 1). Specifically, firms pursue diversification to resolve financial difficulties and utilize slack resources to reduce investment risks. However, firms that intend to fulfill corporate social responsibility often hope to activate slack organizational resources as well, possibly to avoid excessive costs resulting from the promotion of related activities. The majority of these firms therefore utilize existing human resources, production capacity, or investment assets to fulfill corporate social responsibility. This type of diversification process often involves the bricolage of existing resources, producing a positive social image without incurring additional burdens.

Although organizational slack is not a primary motivation for every firm engaging in diversification, it appears crucial nonetheless; the only difference is the degree of importance placed on organizational slack, which may have always been a hidden asset used by firms for punctual operations through different bricolage methods.

**Table 1: Firm Attributes and Motives for Diversification**

Firm	The Original Business	The Motivion of Diversification	The Resource of Bricolage	The Business of Diversification
世堡 (supertex)	SPEAKERS fabric Functional fabric	1.Social Responsibility 2.economic crisis 3. resource slacks	1. Wasted selvage 2.recycled PET fabric 3.human resource slacks 4.suppliers	1.Plastic Pallet 2.Eco textiles
宏遠 (Everest Textile)	Eco textiles Functional Textiles	1.Social Responsibility 2. resource slacks	1.Burning coal Waste 2.human resource slacks	eco-brick
力鵬 (LI PENG)	PET/NYLON Chip& Filament Yarn& fabric	1.Social Responsibility 2.resource slacks	Leftover Textiles (Fiber. Yarn. Fabric. Apparel)	Wooden Plastic
興采 (SINGTEX)	Functional Fabric	1.Social Responsibility 2.economic crisis 3.resource slacks	1.coffee grounds 2.technological slack	S. Café®

Table 1: Contd.,

興隆 (SHING-LONG)	Towel	1.economic crisis 2.resource slacks	1.assets and capacity slacks 2. human resource slacks 3.family member talent	Tourism Factory Cake Towel
新光合纖 (Shinkong Synthetic Fibers Corporation)	Chemical Fiber Plastics LCD related optical	1. resource slacks 2.Social Responsibility	1.Retirement labor and logistics staff 2.capacity slacks 3.labor's interest	iEcofun 1.Creative planter pots 2.ecological aquariums 3.green walls 4.Plant factory

## CONCLUSIONS

The perspective of resource bricolage and textile industry cases presented by this study indicate that corporate emphasis on social responsibility has shifted from simple image building to the development of diversified new businesses. In particular, large-scale enterprises are not only required by their clients and relevant laws to publically demonstrate corporate social responsibility but are also beholden to shareholder interests. As such, existing organizational slack is utilized through bricolage to promote business diversification, resolve shareholder interference in diversification, and reduce the risk of investment failure. However, for small and medium enterprises with less organizational slack, diversification conducted during periods of economic difficulty can only be achieved by relying on resource slack resulting from reduced business. Furthermore, the failure of diversified pursuits will accelerate the collapse of a firm if its main business is diminished. Therefore, such firms demonstrate a considerably more conservative management attitude toward investment in business diversification.

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